

**REPORT OF THE AUDIT OF THE  
HICKMAN COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 28, 2003**



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Greg Pruitt, Hickman County Judge/Executive  
Honorable J. W. Moran, Hickman County Sheriff  
Members of the Hickman County Fiscal Court

The enclosed report prepared by Peercy and Gray, PSC, Certified Public Accountants, presents the Hickman County Sheriff's Settlement - 2003 Taxes as of April 28, 2004.

We engaged Peercy and Gray, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Peercy and Gray, PSC evaluated the Hickman County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
HICKMAN COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 28, 2003**

***Kevin P. Peercy, CPA***

***Linda Gray, CPA***





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
HICKMAN COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**April 28, 2004**

Peercy and Gray, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Hickman County Sheriff as of April 28, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,255,273 for the districts for 2003 taxes, retaining commissions of \$50,996 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,204,247 to the districts for 2003 Taxes. Taxes of \$16 are due to the districts from the Sheriff and refunds of \$16 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$582,130 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Has A Lack Of Segregation Of Duties





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***Kevin P. Peercy, CPA***

***Linda Gray, CPA***



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
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Members of the Hickman County Fiscal Court

Independent Auditor's Report

We have audited the Hickman County Sheriff's Settlement - 2003 Taxes as of April 28, 2004. This tax settlement is the responsibility of the Hickman County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Hickman County Sheriff's taxes charged, credited, and paid as of April 28, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Greg Pruitt, Hickman County Judge/Executive  
Honorable J. W. Moran, Hickman County Sheriff  
Members of the Hickman County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$582,130 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff's Office Has A Lack Of Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC

Audit fieldwork completed -  
October 22, 2004

HICKMAN COUNTY  
J. W. MORAN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

April 28, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 151,955	\$ 112,034	\$ 549,870	\$ 171,271
Tangible Personal Property	8,392	40,732	31,435	22,288
Intangible Personal Property				8,727
Fire Protection	589			
Increases Through Exonerations	60	95	218	68
Franchise Corporation	37,111	40,256	136,588	
Clay Reserves	75	55	272	85
Penalties	1,252	1,221	4,538	1,640
Adjusted to Sheriff's Receipt	<u>(85)</u>	<u>(58)</u>	<u>(305)</u>	<u>(93)</u>
Gross Chargeable to Sheriff	<u>\$ 199,349</u>	<u>\$ 194,335</u>	<u>\$ 722,616</u>	<u>\$ 203,986</u>
<u>Credits</u>				
Exonerations	\$ 293	\$ 283	\$ 1,065	\$ 444
Discounts	2,023	1,873	7,298	2,544
Delinquents:				
Real Estate	4,240	5,867	15,348	4,781
Tangible Personal Property	174	156	653	321
Intangible Personal Property				3
Uncollected Franchise	<u>2,377</u>	<u>6,407</u>	<u>8,863</u>	
Total Credits	<u>\$ 9,107</u>	<u>\$ 14,586</u>	<u>\$ 33,227</u>	<u>\$ 8,093</u>
Taxes Collected	\$ 190,242	\$ 179,749	\$ 689,389	\$ 195,893
Less: Commissions *	<u>8,373</u>	<u>6,434</u>	<u>27,576</u>	<u>8,613</u>
Taxes Due	\$ 181,869	\$ 173,315	\$ 661,813	\$ 187,280
Taxes Paid	181,861	173,325	661,783	187,278
Credit For Commissions Per KRS 134.290				
Refunds (Current and Prior Year)	<u>5</u>	<u>3</u>	<u>17</u>	<u>5</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3</u>	<u>\$ (13)</u>	<u>\$ 13</u>	<u>\$ (3)</u>

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

HICKMAN COUNTY  
J. W. MORAN, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
April 28, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	518,791
4% on	\$	689,388
1% on	\$	37,093

\*\* Special Taxing Districts:

Clinton Fire District	\$	(4)
Columbus Fire District		<u>(9)</u>
Refunds Due Sheriff	\$	<u><u>(13)</u></u>

HICKMAN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 28, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 7, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$582,130 of public funds uninsured and unsecured.

HICKMAN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 28, 2004  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 7, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>582,130</u>
Total	<u>\$ 682,130</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2003 through April 28, 2004.

Note 4. Interest Income

The Hickman County Sheriff earned \$568 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Hickman County Sheriff collected \$5,704 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Hickman County Sheriff collected \$1,170 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.



## COMMENTS AND RECOMMENDATIONS



HICKMAN COUNTY  
J. W. MORAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 28, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$582,130 To Protect Deposits

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On November 7, 2003, \$582,130 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*The Sheriff had no written response.*

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

The Sheriff is required by KRS 134.140(3)(b) to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires that the remaining monthly interest should be transferred to the Sheriff's fee account. During 2003 tax collections, the Sheriff earned \$568 on his tax account. However, only one payment for the year was made to the board of education for interest. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response:*

*The Sheriff had no written response.*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Has A Lack Of Segregation Of Duties

Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional costs when setting the budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. We have judged the lack of an adequate segregation of duties as a reportable condition.

*Sheriff's Response:*

*The Sheriff had no written response.*

HICKMAN COUNTY  
J. W. MORAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of April 28, 2004  
(Continued)

PRIOR YEAR:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "...that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires that the remaining monthly interest should be transferred to the Sheriff's fee account. During 2002 tax collections, the Sheriff earned interest of \$770 on his tax account. However, Sheriff Moran did not pay the interest to the board of education or the fee account on a monthly basis. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff's Response:*

*We are a small county and there are months when we have a small collection, which results in small interest amounts. We write out the interest at the end of the tax season.*

Auditor's Reply:

This was not corrected in 2003 and remains a recommendation.

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



***Kevin P. Peercy, CPA***

***Linda Gray, CPA***



The Honorable Greg Pruitt, Hickman County Judge/Executive  
Honorable J. W. Moran, Hickman County Sheriff  
Members of the Hickman County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Hickman County Sheriff's Settlement - 2003 Taxes as of April 28, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Hickman County Sheriff's Settlement - 2003 Taxes as of April 28, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$582,130 To Protect Deposits
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hickman County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Has A Lack Of Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Peercy and Gray, PSC

Audit fieldwork completed -  
October 22, 2004



